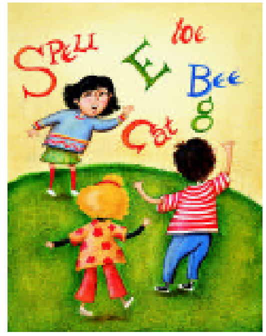
A P P E N D I X
A GLOSSARY OF MUNICIPAL BOND TERMS



The following glossary of municipal bond terms is provided for information and reference. It was complied from information provided by Salomon Smith Barney to the task force committee addressing finance issues.

It will be particularly helpful in understanding the complexities of the financial issues relating to school construction.

AUTHORIZING RESOLUTION or ORDINANCE With respect to an issue of municipal bonds, the document adopted by the issuer that implements its power to issue the bonds. The actual grant of such power may be found in the enabling provisions of the constitution, statutes, charters and ordinances applicable to the issuer. Adoption of an authorizing resolution or ordinance by the issuer's governing body, usually its Board of Directors, is a condition precedent to validation of the proposed bonds. See: BOND RESOLUTION.

AVERAGE LIFE or AVERAGE MATURITY The number of years equal to the total bond years divided by the total number of bonds (1 bond = $1,000 regardless of actual denomination). The average maturity reflects how rapidly the principal of an issue is expected to be paid and is important to underwriters in calculating bids for new issues of municipal securities. See: BOND YEARS.

$$\text{average life} = \frac{\text{Total Bond Years}}{\text{Number of Bonds}}$$

EXAMPLE:

Bond size: $10,000,000
Interest rate: 7%
Maturity of issue: 5 years
1 Bond = $1,000

(1) **Year**	(2) **Principal**	(3) **No. of Bonds**	(4) **Bond Years**
1	$1,740,000	1,740	1,740
2	$1,860,000	1,860	3,720
3	$1,990,000	1,990	5,970
4	$2,130,000	2,130	8,520
5	$2,280,000	2,280	31,350
		Average life =	10,000
			11,400
	$10,000,000	10,000	31,350

AWARD Acceptance by the issuer of an offer or bid by an underwriter to purchase a new issue of municipal securities. Compare: BID.

BALLOON MATURITY A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue. Provision is often made for payment of the balloon maturity by making periodic payments to a sinking fund for the mandatory redemption of specified amounts prior to their state maturity. See: TERM BONDS.

BALLOON PAYMENT A principal payment to satisfy a balloon maturity, which is much larger than prior or future principal payments.

BASIS POINT One basis point is equal to 1/100 of 1 percent. If interest rates increase from 8.25% to 8.50%, the difference is referred to as a 25 basis point increase. Compare: POINT.

BID A proposal to purchase an issue of bonds offered for sale either in a competitive offering or on a negotiated basis, specifying the interest rate(s) for each maturity and the purchase price which is usually stated in terms of par, par plus a premium or par minus a discount. Compare: AWARD.

BIDDING SYNDICATE One or more firms of underwriters that act together to submit a proposal to underwrite a bond issue. See: MANAGER; SYNDICATE; UNDERWRITER.

BOND Written evidence of the issuer's obligation to repay a specified principal amount on a certain date (maturity date), together with interest at a stated rate, or according to a formula for determining that rate. Bonds are distinguishable from notes, which mature in a shorter period of time. Bonds may be classified according to maturity (serial vs. term), source of payment (general obligations vs. revenue), method of transfer (bearer vs. registered), issuer (state vs. municipality vs. special district) or price (discount vs. premium). Compare: NOTE.

BOND BUYER, THE A trade paper of the municipal bond industry published in New York City each business day, which contains advertisements for offering of new issues of municipal bonds, notices of bond redemptions, statistical analyses of market activity, results of previous bond sales, and articles relating to financial markets and public finance. A second edition, *The Weekly Bond Buyer,* provides similar information on a weekly basis.

BOND BUYER INDEXES Weekly averages, based upon estimates from municipal bond market makers, of the yields which would be offered to investors if an issuer were to bring certain types of bonds to market at par on a given day. The estimates are made for the same bond issuers each week and are published in *The Bond Buyer*.

11 Bond Index - An estimation of the yield which would be offered on 20-year general obligation bonds with a composite rating of approximately "AA." The 11 issuers which comprise this index are also included in the 20 Bond Index.

20 Bond Index - An estimation of the yield which would be offered on 20-year general obligation bonds with a composite rating of approximately ''A".

25 Bond Index or Revdex - An estimation of the yield which would be offered on 30-year revenue bonds. The 25 bonds used for this index cover a broad range of issues (transportation, housing, hospitals, water and sewer, pollution control, etc.) and vary in ratings from Moody's Baa 1 to Aaa and Standard & Poor's A to AAA, for a composite rating of Moody's A1 or Standard & Poor's A+.

BOND COUNSEL or BOND APPROVING COUNSEL An attorney (or firm of attorneys) retained by the issuer tv give a legal opinion that the issuer is authorized to issue the proposed bonds, the issuer has met all legal requirements necessary for the issuance, and interest on the proposed bonds will be exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation. Compare: UNDERWRITER'S COUNSEL.

BONDED DEBT The portion of an issuer's total indebtedness represented by outstanding bonds.

Direct Debt or Gross Bonded Debt - The sum of the total bonded debt and any unfunded debt (typically short-term notes) of the issuer. Direct debt may be incurred in the government's own name or assumed through the annexation of territory or consolidation with another governmental unit.

Net Direct Debt or Net Bonded Debt - Direct debt less sinking fund accumulations and all self-supporting debt.

Total Overall Debt - Direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.

Net Overall Debt - Net direct debt plus the issuer's applicable share of the net direct debt of all overlapping jurisdictions.

Overlapping Debt - The issuer's proportionate share of the debt of other local governmental units which either overlap it (the issuer is located either wholly or partly within the geographic limits of another issuer). The debt is generally apportioned based upon relative assessed value. See: DEBT RATIOS.

BONDHOLDER The owner of a municipal bond, to whom payments of principal and interest are made. The owner of a bearer bond is the person having possession of it, while the owner of a registered bond is the person whose name is noted on the bond register.

BOND INFORMATION NOTIFICATION ACT Requires the notice and holding of a public hearing prior to the sale of non-referendum general obligation debt. Acronym = (BINA)

BOND ISSUE See: ISSUE OF BONDS.

BOND PROCEEDS The money paid to the issuer by the purchaser or underwriter for a new issue of municipal bonds, used to finance the project or purpose for which the bonds were issued and to pay certain costs of issuance.

BOND PURCHASE AGREEMENT The contract between the underwriter and the issuer setting forth the final terms, prices and conditions upon which the underwriter purchases a new issue of municipal bonds for reoffering to the investing public.

BOND REGISTER A record, kept by a registrar on behalf of the issuer, which lists the owners of registered bonds. See: REGISTERED BOND; REGISTRAR.

BOND RESOLUTION or ORDINANCE The document or documents representing action of the issuer authorizing the issuance and sale of municipal bonds. Issuance of the bonds is usually approved in the authorizing resolution or ordinance, and sale is usually authorized in a separate document known as the "sale" or "award" resolution. All such resolutions, read together, constitute the bond resolution, which describes the nature of the obligation and the issuer's duties to the bondholders. State law or local ordinances may prescribe whether a bond issue may be authorized by resolution, or whether the more formal procedure of adopting an ordinance is required. See: AUTHORIZING RESOLUTION.

BOND TRANSCRIPT All legal documents, including minutes of appropriate meetings of the issuer, associated with the offering of a new issue of municipal securities. Bond counsel's opinion is given after a review of the transcript and becomes a part thereof.

BROKER A person or firm, other than a bank, which acts as an intermediary by purchasing and selling securities for others rather than for its own account. See: 15 U.S.C.§78c(a)(4).

CALL See: REDEMPTION.

CALLABLE BOND A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, usually at or above par by giving notice of redemption in a manner specified in the bond resolution. See: CALL PRICE; REDEMPTION; REDEMPTION PROVISIONS. Compare: NON-CALLABLE BOND; PUT BONDS.

CALL FEATURES See: REDEMPTION PROVISIONS.

CALL PRICE The price, as established in the bond resolution, at which bonds will be redeemed, if called. Call price is generally at a premium and stated as a percentage of the principal amount called. See: REDEMPTION PROVISIONS.

CAPITALIZED or FUNDED INTEREST A portion of the proceeds of a bond issue set aside, upon issuance of the bonds, to pay interest on the bonds for a specified period of time. Interest is commonly capitalized during the construction period of a revenue-producing project.

CAPITAL MARKET The market for equity securities (stocks) and debt obligations (bonds).

CLOSING The meeting of concerned parties on the date of delivery to sign bonds and requisite legal documents and to physically deliver the bonds in exchange for payment of the purchase price. The parties at closing usually include representatives of the issuer, bond counsel and the purchasers (underwriters). A preclosing meeting is usually held on the day before delivery to review the adequacy of the closing procedures and documents. See: DELIVERY DATE; ISSUANCE SETTLEMENT; SETTLEMENT DATE.

CO-MANAGER See: MANAGER; SYNDICATE.

COMMERCIAL PAPER Short-term, unsecured promissory notes issued in registered form, and usually backed by a letter of credit or a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

COMPETITIVE BID OR COMPETITIVE BIDDING A method of submitting proposals to purchase a new issue of bonds by which the bonds are awarded to the underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale. Underwriting bonds in this manner is also referred to as a competitive or public sale. See: BID. Compare: NEGOTIATED SALE.

CONCESSION or DEALER'S ALLOWANCE In the sale of a new issue of municipal securities, the amount of discount (reduction from list price) a syndicate grants to a dealer not a member of the syndicate, expressed as a percentage of par value. In the secondary market, bonds are frequently offered to other dealers at a concession, or a price lower than that at which the bonds are offered to the public. See: SPREAD.

CONDUIT FINANCING Bonds issued by a governmental unit to finance a project to be used primarily by a third party, usually a corporation engaged in private enterprise. The security for such bonds is the credit of the private user rather than the governmental issuer. Generally such bonds do not constitute general obligations of the issuer because the corporate obligor is liable for generating the pledged revenues. Industrial revenue bonds are common examples of conduit financing.

CONFIRMATION A written summary of a transaction involving the purchase or sale of municipal securities, which the broker or dealer provides to the customer. The confirmation must contain certain information describing the securities and the parties to the transaction. The contents of the customer confirmation are prescribed by Municipal Securities Rulemaking Board Rule G-15.

COSTS OF ISSUANCE The expenses associated with the sale of a new issue of municipal securities, including such items as printing and distribution of the Official Statement, legal fees and rating costs.

COUPON Originally, the detachable part of a bond which specifies the date, place and dollar amount of interest payable. Bondholders would detach the coupons from bonds, usually semi-annually, and present them to the issuer's paying agent for payment or to the bondholder's bank for collection. Coupon now refers to the annual rate of interest payable on a bond, expressed as a percentage of the principal amount.

COVENANT or BOND COVENANT The issuer's enforceable promise to do or refrain from doing some act. With respect to municipal bonds, covenants are generally stated in the bond resolution. Covenants commonly made in connection with a bond issue include covenants to charge fees for use of the financed project sufficient to provide required pledged revenues (rate covenant); to maintain casualty insurance on the project; to complete, maintain and operate the project; not to sell or encumber the project; not to issue parity bonds unless certain earnings tests are met (additional bonds covenant); and not to take actions which would cause the bonds to lose their tax-exempt status. See: NEGATIVE COVENANTS; PROTECTIVE COVENANTS; TRUST INDENTURE.

COVERAGE The ratio of pledged revenues available annually to pay debt service, as compared to the annual debt service requirement. This ratio is one indication of the margin of safety for payment of debt service.

$$\textit{Coverage} = \frac{\textit{Pledged Revenues}}{\textit{Debt Service Requirements}}$$

EXAMPLE:

pledged revenues = $2,000,000
debt service requirements = $1,000,000

$$\textit{Coverage} = \frac{\$2{,}000{,}000}{\$1{,}000{,}000} = 2.00x$$

CREDIT RATING See: RATINGS; NEGATIVE CREDIT FACTORS; POSITIVE CREDIT FACTORS.

CREDIT WATCH A status indicating that a rating agency is re-evaluating the credit rating of an issue. Usually, an issue is placed on credit watch with "negative" or "positive" implications, meaning that the issue is likely to be downgraded or upgraded, respectively.

CURRENT YIELD The ratio of the annual dollar amount of interest to the purchase price of a bond, stated as a percentage. For example, a $1,000 bond purchased at par with an 8% coupon pays $80 per year, or a current yield of 8%. The same bond, if purchased at a discounted price of $800, would have a current yield of 10%. Compare: YIELD TO CALL; YIELD TO MATURITY.

CUSIP NUMBERS (COMMITTEE ON UNIFORM SECURITY IDENTIFICATION PROCEDURES) Identification numbers assigned each maturity of a bond issue, and usually printed on the face of each individual bond in the issue. The CUSIP numbers are intended to facilitate identification and clearance of municipal securities.

DATED DATE The date printed on each bond, from which interest starts to accrue, even though the bonds are usually delivered at some later date for fixed-rate issues. Variable bonds are usually dated the same day as the delivery date.

DEBT LIMIT The maximum amount of debt which an issuer of municipal securities is permitted to incur under constitutional, statutory or charter provisions.

DEBT RATIO Comparative statistics showing the relationship between the issuer's outstanding debt and such factors as its tax base, income or population. Such ratios are often used in the process of determining credit quality of an issue, especially in the case of general obligation bonds. See: BONDED DEBT.

DEBT SERVICE The amount of money necessary to pay interest on outstanding debt, the serial maturities of principal for serial bonds and the required contributions to an amortization or sinking fund for term bonds. Debt service on bonds may be calculated on a calendar year, fiscal year or bond fiscal year basis. See: AMORTIZATION.

DEBT SERVICE SCHEDULE A table listing the annual payments necessary to meet debt service requirements over the period of time the bonds are to be outstanding. See: AMORTIZATION SCHEDULE.

DEFAULT Breach of some covenant, promise or duty imposed by the bond resolution. A serious default occurs when the issuer fails to pay principal, interest, or both, when due. Other, "technical" defaults result when specifically defined events of default occur, such as failure to perform covenants. Technical defaults may include failing to charge rates sufficient to meet rate covenants or failing to maintain insurance on the project. If the issuer defaults in the payment of principal, interest or both, or if a technical default is not cured within a specified period of time, the bondholders or trustee (on behalf of the bondholders) may exercise legally available rights and remedies for enforcement of the bond resolution.

DEFEASANCE Termination of the rights and interests of the bondholders and extinguishment of their lien on the pledged revenues in accordance with the terms of the bond resolution for an issue of bonds. Defeasance usually occurs in connection with the refunding of an outstanding issue or by the final payment, or provision for all future payments of principal and interest on an issue. See: ADVANCE REFUNDING; REFUNDING.

DELIVERY DATE Date on which the bonds are physically delivered in exchange for the payment of the purchase price. The date of issuance is the same date as the delivery date. See: CLOSING; ISSUANCE; SETTLEMENT DATE.

DENOMINATION The face amount of par value of a bond that the issuer promises to pay on the maturity date. Most fixed-rate municipal bonds are issued in the minimum denomination of $5,000, although a few issues are available in smaller denominations. Variable rate bonds are usually issued in larger denominations such as $50,000 or $100,000. See: MINIBONDS.

DESCRIPTION OF THE BONDS A summary of the terms and provisions of the bond issue, including the denomination and form of the bonds, purpose of the bonds, lien status, security, covenants and provisions for redemption. Identifying features of a bond include the dated date, issuer, interest rate, maturity date and CUSIP number.

DISCOUNT The amount by which par value exceeds the price paid for a security and which generally represents the difference between the nominal interest rate and the actual or effective return to the investor. See: ORIGINAL ISSUE DISCOUNT; UNDERWRITER'S DISCOUNT. Compare: PREMIUM.

DISCOUNT BOND A bond purchased for less than par value. Compare: PREMIUM BOND.

DOWNGRADE The lowering of a bond rating by a rating service. A downgrade would be considered if the issuer encountered major financial difficulties or an economic decline, which may be viewed by the rating service as impairing the credit quality of the issue or the issuer. See: RATINGS. Compare: UPGRADE.

DRAWDOWN SCHEDULE An estimated schedule of disbursements of bond proceeds to meet the periodic payments for the construction of a project.

DUE DILIGENCE The process of thorough investigation of a bond issue, usually by underwriter's counsel. Such inquiry is made to assure that all material facts are fully disclosed to potential investors and that there have been no material omissions or misstatements of fact. The issuer, the obligation of the bonds, and the true obligor in a conduit financing are investigated. Further inquiry may be required if the investigation reveals facts which are incomplete, suspect or inconsistent, either on their face or in light of other facts known to counsel. Due diligence with respect to municipal securities is not the same process as the more formal due diligence required with respect to corporate debt and equity securities. See: DUE DILIGENCE OPINION; FULL DISCLOSURE; RULE 10b-5.

EFFECTIVE INTEREST RATE The actual rate of interest earned by the investor on bonds purchased, after allowing for premiums, discounts or accrued interest over the period of the investment. Compare: NOMINAL INTEREST RATE.

FEASIBILITY STUDY A report of the financial practicality of a proposed project and financing thereof, which may include estimates of revenues that will be generated and a review of the physical, operating, economic or engineering aspects of the proposed project.

FINANCIAL ADVISOR With respect to a new issue of municipal bonds, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. Such consultant may be employed in a capacity unrelated to a new issue of municipal securities, such as advising on cash flow and investment matters. The financial advisor is sometimes referred to as a fiscal consultant or fiscal agent. Generally, a financial advisor cannot also be an underwriter for the same issuer, however, Municipal Securities Rulemaking Board Rule G-23 provides that the financial advisor may: (1) negotiate an underwriting after certain disclosure, approval of the issuer and termination of the financial advisor relationship; and (2) bid in a competitive underwriting if the issuer gives written consent before the financial advisor's bid is submitted.

FISCAl YEAR A twelve-month period which determines the time frame for financial reporting. budgeting and accounting. At the end of the fiscal year, financing position and results of operations are determined. See: BOND FISCAL YEAR.

FITCH INVESTORS SERVICE An independent service company based in New York City which provides ratings for bonds and other financial information to investors.

FLOATING or VARIABLE INTEREST RATE A method describing the interest rate reset process on a bond issue whereby the issuer's remarketing agent on a periodic basis (such as weekly, monthly, or quarterly) reestablishes the interest rate at the market level that would enable the bonds to trade at par.

FLOW OF FUNDS The order and priority of handling, depositing and disbursing pledged revenues, as set forth in the bond resolution. Generally, the revenues are deposited, as received, into a general collection account or revenue fund for disbursement into the other accounts established by the bond resolution. Such other accounts generally provide for payment of debt service, debt service reserve, operation and maintenance costs, redemption, renewal and replacement and other requirements.

FULL DISCLOSURE Providing accurate and complete information material to a bond issue, which a potential investor would be likely to consider important in deciding whether to invest. Material facts may describe the issuer and the true obligor in a conduit financing, as well as the structure of a bond issue and the security thereof. Full disclosure enables the investor to evaluate the credit quality of an issue.

The material facts pertinent to a new issue of municipal securities are generally disclosed in the official statement, which also states that there have been no material misstatements or omissions by the issuer with respect to the issue, and that no facts have become known which would render false or misleading any statement which was made. Unlike full disclosure requirements in connection with corporate debt and equity securities, filing, registration and reporting to the Securities Exchange Commission is not required to issue municipal securities. Issuers, however, are required to certify in writing that disclosure has been complete according to Rule 15(c)2-12. See: DUE DILIGENCE; RULE 10b-5.

FULLY REGISTERED A bond which has been registered as to both principal and interest according to the bond resolution. Such bonds are payable only to the owner, or to order of the owner, whose name is noted on records of the issuer or registrar. See BOND REGISTER, REGISTERED BONDS; REGISTRAR. Compare: BEARER BOND.

GENERAL OBLIGATION BONDS or G.O. BONDS Bonds which are secured by the full faith and credit of the issuer. Compare: LIMITED TAX BONDS; SPECIAL ASSESSMENT BONDS; SPECIAL OBLIGATION BONDS; REVENUE BONDS; UNLIMITED TAX BONDS.

INSTITUTIONAL SALES Sales of securities to banks, financial institutions, insurance companies or other business organizations (institutional investors) which possess or control considerable assets for large-scale investing. Compare: RETAIL SALES.

INTEREST Compensation for the use of borrowed money, generally expressed as an annual percentage of the principal amount. See ACCRUED INTEREST; INTEREST RATE. Compare: PRINCIPAL.

INTEREST RATE The annual percentage of principal payable for the use of borrowed money.

INVESTMENT BANKER The designation of a firm or an individual member of a firm that underwrites new issues of municipal securities. See: UNDERWRITER.

INVESTMENT GRADE The broad credit designation given bonds which have a high probability of being paid. Such bonds have minor, if any, speculative features and are rated at least BBB by Standard & Poor's Corporation or Baa by Moody's Investors Service. Bank examiners require that most bonds held in bank portfolios be investment grade. See: RATINGS.

ISSUANCE Authorization, sale and delivery of a new issue of municipal securities. See: CLOSING; DELIVERY DATE; SETTLEMENT.

ISSUER A state, political subdivision, agency or authority that borrows money through the sale of bonds or notes.

JUNIOR LIEN BONDS Bonds which have a subordinated claim against pledged assets or revenues. Compare: SENIOR LIEN BONDS.

LEAD MANAGER See: MANAGER, SYNDICATE.

LEGAL OPINION or LEGAL APPROVING OPINION The written conclusions of bond counsel that the issuance of municipal securities and the proceedings taken in connection therewith comply with applicable laws, and that interest on the bonds will be exempt from federal income taxation and, where applicable, from state and local taxation. The legal opinion is generally printed on the bonds. See: QUALIFIED LEGAL OPINION. Compare: DUE DILIGENCE OPINION.

LEVEL DEBT SERVICE Total of principal and interest remains substantially level throughout life of issue.

LIMITED TAX BONDS Bonds secured by the pledge of a specified tax or category of taxes limited as to rate or amount. Compare: GENERAL OBLIGATION BONDS; REVENUE BONDS; SPECIAL ASSESSMENT BONDS; UNLIMITED TAX BONDS.

MANAGER The leading member or members of an underwriting syndicate charged with primary responsibility for conducting the affairs of the syndicate. The manager generally takes the largest underwriting commitment.

> *Lead Manager or Senior Manager* - A single underwriter serving as head of the syndicate. The lead manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities and directs the processes by which bids are calculated for a competitive underwriting. The lead manager generally signs contracts on behalf of the syndicate and is charged with allocating bonds among the members of the syndicate according to the terms of the syndicate account and orders received. The lead manager is listed first (upper left hand corner) among all managers on the cover of the Official Statement.

> *Joint Manager or Co-manager* - The terms may be used in two contexts. In a negotiated underwriting, the issuer may appoint multiple underwriters, each of which is referred to as a joint or co-manager. When a large syndicate is composed of several smaller syndicates which may operate as syndicates themselves, each such smaller syndicate will be represented by its manager in the consolidation of syndicates. Each group's representative is a joint manager of the consolidating syndicate. In either event, one of the joint managers is selected as lead manager.

MARKETABILITY The ease or difficulty with which bonds can be sold in the capital market. A bond issue's marketability depends upon such factors as interest rate, security, maturity, timing of issuance, volume of comparable issues being sold and credit quality as determined or affected by the lien status, tax or revenue base and terms of the bond resolution.

MATURITY The date upon which the principal of a municipal bond becomes due and payable to the bondholder.

MIG See RATINGS.

MINIBONDS A fixed-rate bond with a face value less than $5,000 and usually significantly less than $5,000, i.e., $1,000 or $500. Generally structured to be sold to retail investors.

MOODY'S INVESTORS SERVICE An independent service subsidiary of Dun & Bradstreet Corp., based in New York City, which provides ratings for municipal bonds and other financial information to investors. See: RATINGS.

MORAL OBLIGATION An obligation of a third party (usually the state) to make up a shortfall in a reserve fund or pay debt service for an issuer, such obligation may be subject to and dependent upon an appropriations act by the State Legislature. Such obligation does not constitute a legally enforceable right against the state. See: GENERAL OBLIGATION BONDS.

MUNICIPAL BOND INSURANCE ASSOCIATION OR MBIA

An association of five insurance companies which issues insurance policies to provide for payment of new issue municipal bond principal interest payments in the event of default. MBIA premiums are paid in full at the time of delivery and the policy is usually issued at the time of the issuance of the bonds with coverage existing throughout the life of the issue. Standard & Poor's assigns a AAA rating and Moody's assigns a Aaa rating to all municipal bond issues insured by MBIA. See: AMERICAN MUNICIPAL BOND ASSURANCE CORPORATION; SPLIT RATINGS.

MUNICIPAL BONDS or MUNICIPALS

A general term referring to bonds of local governmental subdivisions such as cities, towns, villages, counties and special districts as well as states and subdivisions thereof, which are exempt from federal income taxation. See: TAX-EXEMPT BOND.

MUNICIPAL SECURITIES RULEMAKING BOARD or MSRB

An independent self-regulatory organization established by the Securities Acts Amendments of 1975, which is charged with primary rulemaking authority over dealers, dealer banks and brokers in municipal securities. Its 15 members represent three categories - securities firms, bank dealers and the public, each category having equal representation on the Board.

MUNIFACTS

A private wire communication system originating in the New York editorial offices of The Bond Buyer. Munifacts transmits current bond market information which is printed out in the offices of its subscribers.

NEGATIVE COVENANTS

Promises contained in the bond contract, whereby the issuer obligates itself to refrain from doing certain acts. One common example of a negative covenant is a promise not to sell or encumber the project. See: COVENANT. Compare: PROTECTIVE COVENANTS.

NEGATIVE CREDIT FACTORS

Those characteristics which could adversely affect the credit standing of an issuer, such as declining population, decreasing revenue sources, poor general economic environment, regulatory restrictions on operations of the issuer, poor debt ratios and structural weaknesses of the issue, such as insufficient coverage requirements, weak additional bonds tests and subordinate lien position. Compare: POSITIVE CREDIT FACTORS.

NEGOTIATED SALE

The sale of a new issue of municipal securities by an issuer through an exclusive agreement with a previously selected underwriter or underwriting syndicate. A negotiated sale should be distinguished from a competitive sale, which requires public bidding by the underwriters. Primary points of negotiation for the issuer are the interest rate and purchase price, which reflect the issuer's costs of offering its securities in the market. The sale of a new issue of bonds in this manner is also known as a negotiated underwriting. See: BID. Compare: COMPETITIVE BID.

NET INTEREST COST or NIC

A common method of computing the interest expense to the issuer of issuing bonds, and which sometimes serves as the basis of award in a competitive sale. NIC allows for premium and discount and represents the dollar amount of interest payable over the life of an issue, <u>without taking into account the time value of money</u>. While net interest cost actually refers to the dollar amount of the issuer's interest cost, it is also used in reference to the average net interest cost rate, which reflects the overall rate of interest to be paid by the issuer over the life of the bonds.

NET INTEREST COST or NIC The formula for calculating the NIC rate is:

$$\frac{\textit{Total Interest Payments + Discount (premium)}}{\textit{Bond Payment}}$$

Compare: TRUE INTEREST COST.

EXAMPLE:

(1) Years to Maturity	($2) Principal Maturing	(3) Interest Rate	(4) Bond Years (1x2)	(5) Interest Payment (3 x 4)
1	$1,000	8.00%	1,000	$80
2	$2,000	8.75%	4,000	$350
3	$2,000	9.00%	6,000	$540
			11,000	$970

$$\textit{Coverage} = \frac{970 + 0}{11{,}000} = 8.81818\%$$

NET REVENUE The amount of money available after subtracting from gross revenues such costs and expenses as may be provided in the bond resolution.

NEW ISSUE Bond offered to investors for the first time.

NOMINAL INTEREST RATE The interest rate shown on the face of a bond, which represents the amount of interest to be paid to the bondholder. Compare: COUPON, CURRENT YIELD, EFFECTIVE INTEREST RATE; YIELD TO MATURITY.

NON-CALLABLE BOND A bond that cannot be redeemed by the issuer before its stated maturity date. Compare: CALLABLE BOND; PUT BOND.

NOTE A written, short-term promise of the issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue. Notes usually mature in less than 5 years.

> *Bond Anticipation Votes or BANs* - Notes issued by a governmental unit, usually for capital projects, which are paid off by the issuance of long-term tax-exempt bonds.
>
> *Revenue Anticipation Notes or RANs*- Notes issued in anticipation of receiving revenues at a future date.
>
> *Tax Anticipation Notes or TANs* - Notes issued in anticipation of future tax receipts, such as ad valorem taxes which are due and payable at a set time of the year.

RANs, and TANs may be issued to finance capital projects or to alleviate cash flow problems of the issuer. Compare: BOND.

NOTICE FOR TENDERS An invitation by the issuer of bonds, or its representative, for bondholders to offer the issuer's bonds at a predetermined price, or a price at which the bondholder is willing to sell to the issuer. The notice for tenders usually authorizes the issuer to reject tender offers in whole or in part. Compare: TENDER OFFER.

NOTICE OF REDEMPTION A publication of the issuer's intention to call outstanding bonds prior to their stated maturity dates, in accordance with the bond resolution. See: CALLABLE BOND; REDEMPTION; REDEMPTION PROVISIONS.

NOTICE OF SALE A publication by an issuer describing an anticipated new offering of municipal bonds. It generally contains the date, time and place of sale, amount of issue, type of bond, amount of good faith deposit, basis of award, name of bond counsel, maturity schedule, methods time and place of delivery, and bid form.

OFFERING CIRCULAR A document generally prepared by the underwriters about an issue of securities expected to be offered in the primary market. The document discloses to the investor basic information regarding the securities to be offered and issued as an advertisement for the sale of municipal bonds. An offering circular may also be used by dealers when selling large blocks of previously issued securities in the secondary market. Compare: OFFICIAL STATEMENT; PRELIMINARY OFFICIAL STATEMENT.

OFFERING PRICE The price at which dealers or members of an underwriting syndicate will offer securities to investors. See: REOFERRING SCALE.

OFFICIAL STATEMENT or FINAL OFFICIAL STATEMENT or OS A document published by the issuer which generally discloses material information on a bond issue, including the purposes of the bond issue, how the bonds will be repaid, and the financial, economic and general characteristics of the issuing entity. Investors may use this information to evaluate the credit quality of the bonds. Compare: OFFERING CIRCULAR; PRELIMINARY OFFICIAL STATEMENT.

ORIGINAL ISSUE DISCOUNT An amount which represents the difference by which par value exceeds the public offering price of a new issue of municipal bonds. Original issue discount is amortized over the life of the bonds and is generally treated as tax-exempt interest. When the investor sells the bonds before maturity, any profit or loss realized on such sale is figured on the adjusted cost basis for tax purposes. The adjusted cost basis is calculated for each year the bonds are outstanding by adding the accreted value of the original offering price. The accreted value is determined by the rules and regulations of the Internal Revenue Service. Selling the bonds at a price in excess of the adjusted cost basis would result in a taxable gain for the seller, while a selling price below that level would be treated as a loss for income tax purposes. See: DISCOUNT; ZERO COUPON BOND.

PAR BOND A bond selling at face value.

PAR VALUE In the case of bonds, the amount of principal which must be paid at maturity. Par value is also referred to as the face amount of a security.

PAYING AGENT The entity responsible for the payment of interest and principal on municipal bonds on behalf of the issuer. The paying agent is usually a bank or trust company, but may be the treasurer or some other officer of the issuer. The paying agent may also provide other services for the issuer, such as reconciliation of the bonds and coupons paid with the sums of money paid to the paying agent by the issuer, destruction of paid bonds and coupons, indemnification of the issuer for wrongful payment and registration of the bonds. Compare: REGISTRAR.

PAYMENT DATE The date on which interest or principal and interest are payable on a municipal bond. Interest payment dates are usually semi-annual.

PLEDGED REVENUES The funds obligated for payment of debt service and other deposits required by the bond resolution.

Gross Pledge - The encumbrance or obligation of all pledged revenues for debt service prior to deductions for any costs or expenses, as provided in the bond resolution.

Net Pledge - The pledge of funds for payment of debt service only after certain other costs and expenses are paid, as provided in the bond resolution.

POINT One percent of par value. Because bond prices are quoted as a percentage of $1,000, a point is worth $10 regardless of the actual denomination of a bond. If a bond is discounted 2 ½ points, or $25, it is quoted at 97 ½ percent of its value, or $975 per $1,000. Compare: BASIS POINT.

POSITIVE CREDIT FACTORS Those characteristics which may provide strength to the credit of an issuer, such as increasing tax base, diversification of industry in the region, generally sound economic environment, favorable debt ratios, sound financial operations and reporting, and structural strengths of an issue, such as strong additional bonds and coverage tests, rate covenants and superior lien status. Compare: NEGATIVE CREDIT FACTORS.

PRELIMINARY OFFICIAL STATEMENT or RED HERRING or POS A preliminary version of the of official statement which is used by the issuer or underwriter to describe the proposed issue of municipal bonds prior to the determination of an interest rate and offering price. The preliminary official statement is a marketing tool used to gauge buyers interest in the issue and is relied upon by potential purchasers in making their investment decisions. Normally, no offer for or acceptance of bonds can occur on the basis of the preliminary official statement and a statement to that effect appears on the face of the document in red print, which gives the document its nickname, Red Herring. Although the preliminary official statement is technically a draft, it must be substantially in the same form as the final official statement, and the underwriters are reluctant to permit any substantial changes between the preliminary and the final official statements. Compare: OFFERING CIRCULAR; OFFICIAL STATEMENT. See RULE 15(c)2-12.

PREMIUM The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor. Compare: DISCOUNT.

PREMIUM BOND A bond purchased at a price in excess of par value. Compare: DISCOUNT BOND.

PREMIUM CALL PRICE The price over par value, expressed as a percentage of par, which the issuer agrees to pay upon redemption of its outstanding bonds prior to the stated maturity date as provided in the bond resolution. See: REDEMPTION PROVISIONS.

PRE-SALE ORDERS Orders given to the syndicate manager prior to the purchase of bonds from the issuer, which indicates a prospective investor's intention to purchase the bonds at a predetermined price level. Pre-sale orders are normally afforded top priority in allocation of bonds from the syndicate.

PRIMARY MARKET The market for new issues of municipal securities. Compare: SECONDARY MARKET.

PRINCIPAL The face amount or par value of a bond or issue of bonds payable on stated dates of maturity. See: PARVALUE. Compare: INTEREST.

PRIOR ISSUE An outstanding issue of municipal bonds. The term is usually used in the context of refunding to denote the obligations being refinanced, sometimes called refunded bonds. It is also used with respect to previous bond issues which normally possess a first or senior lien on pledged revenues.

PRIVATE PLACEMENT With respect to municipal securities, the term may be used in reference to negotiated sales directly to institutional or private investors rather than through a public offering.

PROTECTIVE COVENANTS Agreements in the bond resolution which impose duties upon the issuer, in order to protect the interests of the bondholders. Typical protective covenants relate to such items as maintenance of adequate rates, segregation of funds, proper project maintenance, insurance, books, records and tests for the issuance of additional parity bonds. See: COVENANT. Compare: NEGATIVE COVENANTS.

PUBLIC SECURITIES ASSOCIATION or PSA A national trade organization of dealers and dealer banks that underwrite, trade and sell municipal, United States Government and federal agency securities. The PSA monitors legislation concerning the public securities industry and assists its members in developing expertise in the underwriting and sale of public securities.

PUT BONDS or TENDER OPTION BONDS Obligations which grant the bondholder the right to require the insurer or a specified third party to purchase the bonds, usually at par, at a certain time prior to maturity or upon the occurrence of specified events or conditions. Compare: CALLABLE BOND.

QUALIFIED LEGAL OPINION A conditional affirmation of the legality of bonds, before or after they are sold. An unqualified or clean legal opinion, on the other hand, is an unconditional affirmation of the legality of bonds. See: LEGAL OPINION.

RATINGS Evaluations of the credit quality of notes and bonds usually, made by independent rating services, although many financial institutions also rate bonds for their own purposes. Ratings generally measure the probability of the timely repayment of principal of and interest on municipal bonds. Ratings are initially made before issuance and are continuously reviewed and may be amended to reflect changes in the issuer's credit position. The information required by the rating agencies varies with each bond issue, but generally includes demographics, debt burden, economic based finances and management structure. The information is evaluated and the issue is assigned a letter rating which reflects the creditworthiness of the bonds. The higher the credit rating, the more favorable the effect of the marketability of the bond. See: DOWNGRADE; UPGRADE.

REBATE The payment of arbitrage rebate to the United States Government as required generally under Section 148 of the Internal Revenue Code of 1986 as amended.

REDEMPTION A transaction in which the issuer pays an outstanding obligation at a specified price, usually at or above par prior to the specified maturity date, or "calls the bonds," by giving notice in the manner prescribed in the bond resolution. Redemptions may be either mandatory or optional. See: CALLABLE BOND; REDEMPTION PROVISIONS.
REDEMPTION PROVISIONS or CALL FEATURES - The terms of the bond resolution giving the issuer the right or requiring the issuer to redeem or call all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specified price, usually at or above par. Common types of redemption provisions include:

> *Optional Redemption* - The issuer has the right to redeem bonds, usually after a stated date and at a premium, but is not required to do so.
>
> *Mandatory Redemption* - The issuer is required to call outstanding bonds based on a predetermined schedule or as otherwise provided in the bond resolution. Frequently, the issuer is allowed to make open market purchases in lieu of calling the bonds. See: MANDATORY REDEMPTION ACCOUNT.

REDEMPTION Continued...

Extraordinary, Optional Redemption - The issuer has the right to call or redeem an issue of bonds upon the occurrence of certain events, as opposed to redemption at any time during the period specified by the bond's terms. For example, the right to extraordinary optional redemption of an issue of bonds may be exercised when mortgages are prepaid in connection with a housing bond issue; when excess bond proceeds exist after a completion of a project; or when the facility has been substantially destroyed during construction due to an accident. The latter situation is also known as a "calamity call" or "catastrophe call."
See: CALLABLE BOND; CALL PRICE

RED HERRING See: PRELIMINARY OFFICIAL STATEMENT.

REFUNDING A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds. There are generally two major reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding obligations, when due, or they are used to immediately retire the outstanding obligations. The new obligations being refinanced are referred to as the "refunded bonds" or the "prior issue." If the prior issue is not to be redeemed until a later date the proceeds of the refunding bonds are used to purchase other obligations which are then deposited in an escrow and which mature in sufficient amounts and at appropriate times to provide funds to pay the interest and principal of the prior issue when due. This latter procedure is called advance refunding . For accounting purposes, refunded and defeased obligations are not considered part of the issuer's debt because the lien of the holders of the refunded bonds is on the escrowed funds, not on the originally pledged source of revenues. See: ADVANCE REFUNDING; DEFEASANCE; SLGS.

REGISTERED BOND A bond listed with the registrar as to ownership, which cannot be sold or exchanged without a change of registration. The Tax Equity and FISCAL Responsibility Act of 1982 requires that all bonds be issued in fully registered form. Existing bearer bonds with attached coupons may provide for registration as to principal and interest in several ways, the most common being the exchange of said bond for a registered bond which has no coupons; the interest payments are then paid directly to the owner. Registration affords protection against payment being made to unauthorized holders of such bonds, as the owner's name is actually placed on the bond itself. Compare: BEARER BOND.

REGISTRAR The person or entity responsible for maintaining records on behalf of the issuer for the purpose of noting the owners of registered bonds. The paying agent frequently performs this function. Compare: PAYING AGENT.

REOFFERING SCALE For each maturity within an issue, the prices and/or yields at which bonds are offered to the public by the underwriters. See: OFFERING PRICE.

EXAMPLE:

Maturity Date	***Interest Rate***	***Price or Yield***
July 1, 1994	3.50	3.40
July 1, 1995	4.25	4.20
July 1, 1996	4.50	@100 or par
July 1, 1997	4.70	@l00 or par
July 1, 1998	4.90	@l00 or par
July 1, 1999	5.00	@l00 or par

REPURCHASING AGREEMENT or RP or REPO An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer, and the bank or dealer agrees to repurchase the securities at a certain price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. *Reverse repurchase agreements* are the mirror image of RPs, when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

RESERVE FUND The fund established under the Indenture which may be used to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements. The reserve fund is either funded in whole or in part from the proceeds of the bonds or is allowed to gradually accumulate over a period of years through required payments from the pledged revenues. If the reserve fund is used in whole or part to pay debt service, the issuer usually is required to replenish the reserve fund from the first available funds or revenues. A typical reserve requirement might be the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity. The size and investment of the reserve may be subject to arbitrage regulations. See: I.R.C. §103 and regulations promulgated thereunder.

RETAIL SALES Sales of securities in relatively small blocks to individual investors and small institutions. Compare: INSTITUTIONAL SALES.

RETIREMENT OF DEBT The payment of principal and interest due to the bondholders.

REVENUE BONDS Bonds payable from a specific source of revenue and which do not pledge the full faith and credit of the issuer. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholder to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Pledged revenues may be derived from operation of the financed project, grants and excise or other specified non-ad valorem taxes. Generally, no election is required prior to issuance or validation of such obligations. Compare: GENERAL OBLIGATION BONDS; LIMITED TAX BONDS; SPECIAL ASSESSMENT BOND; SPECIAL OBLIGATION BONDS; UNLIMITED TAX BONDS.

ROUND LOT The increment in which municipal bonds are commonly traded. The industry standard for municipal bonds is $100,000 par value, which is referred to as 100 bonds.

RULE 10b-5 A regulation of the Securities and Exchange Commission, adopted pursuant to the Securities Exchange Act of 1934 [15 U.S.C. §78j(b)] which makes it unlawful for any person to employ any device, scheme, or artifice to defraud; to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any practice or course of business which operates or would operate as a fraud or deceit upon any person in connection with the purchase or sale of any security. See: DUE DILIGENCE; FULL DISCLOSURE.

RULE 15(c)2-12 A regulation of the Securities and Exchange Commission effective January 1, 1990 requiring underwriters participating in primary offerings of municipal securities of $1 million or more to obtain; review distribute a preliminary Official Statement that has been “deemed final” by the issuer. The “deemed final” Official Statement is complete except for market sensitive details such as the offering price and interest rate.

SCALE See: REOFFERING SCALE.

SEC See: SECURITIES AND EXCHANGE COMMISSION.

SECONDARY MARKET Market for bonds previously offered and sold. Compare: PRIMARY MARKET.

SECURITIES AND EXCHANGE COMMISSION or SEC The federal agency responsible for supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. However, the SEC has responsibility for the approval of Municipal Securities Rulemaking Board Rules, and has jurisdiction, pursuant to SEC Rule l0b-S, over fraud in the sale of municipal bonds. See: 15 U.S.C. §78(d).

SECURITY Generally, evidence of debt or equity in a common enterprise in which a person invests on the expectation of earning income. The term includes notes, stocks, bonds, debentures, mortgages and other forms of negotiable and non-negotiable evidences of indebtedness or ownership. Unless exempted, as are municipal bonds, securities transactions are subject to federal and state regulation. See: 15 U.S.C. §77b(1) (Securities Act of 1933); 15 U.S.C. §78c(a)(10)(Securities Act of 1934).

SECURITY FOR THE BONDS or SECURITY The specific revenue sources or assets of an issuer which are pledged for payment of debt service on a series of bonds, as well as the covenants or other legal provisions protecting the bondholders.

SERIAL BONDS Bonds of an issue in which some bonds mature in each year over a period of years. Compare: TERM BONDS.

SERIAL ISSUE An issue of bonds having maturities scheduled over several years, thereby allowing the issuer to amortize principal over a period of years. Maturity schedules for serial bonds often provide for level debt service or level principal payments. Compare: TERM ISSUE.

SETTLEMENT Delivery of and payment for a new issue of municipal bonds. Settlement usually occurs within 30 days of the bonds being awarded to the underwriters. During this time, bonds are printed and legal documents are completed. With regard to the purchase of a bond in the secondary market, settlement occurs upon payment for the bond, usually five business days after purchase. See: MSRB Rule G-12; DELIVERY DATE; GOOD DELIVERY.

SETTLEMENT DATE The date used in price and interest computations, usually the date of delivery. See: MSRB Rule G-12; DELIVERY DATE; SETTLEMENT.

SHORT COUPON A coupon period of less than six months. Usually the first coupon to set the remaining coupons on a semi-annual bond fiscal year. For example, a bond issue with a dated date of April 15, a settlement date of May 6, and a first interest payment date of August 1 would have a short coupon.

SINKING FUND An account established under the Indenture, sometimes called a debt service fund, into which the issuer makes periodic deposits to assure the timely availability of sufficient monies for the payment of debt service requirements. The revenues to be deposited into the sinking fund and payments therefrom are determined by the terms of the bond resolution.

SLGS An acronym for State and Local Government Series Securities. SLGS are special United States Government securities sold by the Secretary of the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions imposed under Section 148 of the Internal Revenue Code. SLGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds. See: ADVANCE REFUNDING; REFUNDING.

SPLIT RATINGS An assignment of different ratings of an issue of municipal bonds by nationally recognized rating services. See: RATINGS.

SPREAD or GROSS SPREAD or GROSS UNDERWRITING SPREAD or UNDERWRITERS' DISCOUNT

The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds and the prices at which the bonds are sold to the investing public, usually expressed in points or fractions thereof. Spread generally has four components:

1. *Expenses* - The costs of operating the syndicate for which the lead manager may be reimbursed. Generally, these include out-of-pocket expenses incurred by the underwriter, i.e., legal fees, travel and market development, mail/communications, etc.
2. *Management Fee* - Compensates the managers for their expertise and experience in structuring the transaction and negotiating the transaction in conjunction with the issuer.
3. *Takedown* - The largest component of spread, similar to a commission, which represents income derived from the sale of bonds. If bonds are sold by a member of the syndicate, the seller is entitled to the full takedown; if sold by a dealer not a member of the syndicate, such seller is entitled only to that portion of the takedown known as the concession or dealer's allowance.
4. *Risk or Residual* - The amount paid to each underwriter within a syndicate on a pro rata basis according to the number of bonds each firm has committed to sell without regard to the actual sales made by each member.

See: CONCESSION; SYNDICATE.

STANDARD & POOR'S CORPORATION

An independent financial service company which provides ratings for municipal bonds and other financial information to investors. Standard & Poor's Corporation, a subsidiary of McGraw-Hill Company, has its principal offices in New York City. See: RATINGS.

STEPPED COUPON BONDS

An issue of bonds, all of which bear the same amount of interest in a given year, although the rate may differ from one year to another. The bonds normally pay a lower rate of interest in the early years than in the later years of the issue. The use of this financing technique may result in interest cost savings by structuring the issue with a high percentage of the principal maturing in the early years; the issuer would then be required to pay interest at higher rates in the later years on less principal. Redemption premiums may be higher than on conventional bonds, in order to assure the bondholder that the yield to call would not be less than his expected yield to maturity.

STRUCTURING AN ISSUE

The process of formulating a bond issue within the issuer's legal and financial constraints so the bonds are acceptable to the marketplace. In structuring a new issue of municipal securities the issuer must determine such factors as maturities, the method of repayment, redemption provisions, application of bond proceeds, security provisions and covenants.

SYNDICATE

A group of underwriters formed to collectively purchase (underwrite) a new bond issue from the issuer and offer it for resale to the general public. The syndicate is organized for the purposes of sharing the risks of underwriting the issue and for obtaining sufficient capital to purchase an issue. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operations of the syndicate. There are two major types of syndication agreements:

Divided or Western Account - An underwriting agreement in which each member of an underwriting syndicate is liable only for its allocation of the bond issue, and not for any unsold portion of the issue allocated to the other underwriters.

Undivided or Eastern Account - An underwriting agreement in which each member of the underwriting syndicate is liable for any unsold portion of the issue according to each member's percentage participation in the syndicate.

See: MANAGER; UNDERWRITER.

TAXABLE EQUIVALENT or TAXABLE YIELD EQUIVALENT The interest rate which must be paid on a taxable bond to earn the bondholder the same return as that earned on a tax-exempt bond. Because interest earned on municipal bonds is not subject to federal income taxation, a taxable bond must yield an amount sufficient to make up for the tax liability incurred by the bondholder. The taxable yield equivalent varies according to the bondholder's marginal tax bracket. The formula for determining the taxable yield equivalent is:

$$\textit{Taxable Yield Equivalent} = \frac{\textit{Tax - Free Yield}}{\textit{100\% - Marginal Tax Bracket}}$$

TAX-EXEMPT BOND Another term for a municipal bond. Interest on "municipals" is exempt from federal income taxation pursuant to Section 103 of the Internal Revenue Code, and may or may not be exempt from state income or personal property taxation in the jurisdiction where issued. If the bond is exempt from the state income tax, it possesses "double exemption" status. "Triple exemption" bonds are exempt from local income tax, as well as federal and state income tax.

TENDER OFFER A proposal by the bondholder to sell his bond to the issuer or its representative for a stated price. Tender offers are usually made in response to a notice for tenders by the issuer. Compare: NOTICE FOR TENDERS.

TENDER OPTION BONDS See: PUT BONDS.

TERM BONDS Bonds coming due in a single maturity. The issuer sometimes agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity. Compare: SERIAL BONDS.

TERM ISSUE An issue of municipal securities that has a single stated maturity. Compare: SERIAL ISSUE.
TIC - See: TRUE INTEREST COST.

TOMBSTONE An advertisement placed by underwriters announcing the terms of a new municipal bond offering, setting forth the name of the issuer, maturities, interest rate, reoffering scale, ratings and members of the underwriting syndicate. Compare: NOTICE OF SALE; PRELIMINARY OFFICIAL STATEMENT.

TRANSCRIPT OF PROCEEDINGS See: BOND TRANSCRIPT.

TREASURY SECURITIES Debt obligations of the United States Government sold by the Treasury Department in the forms of bills, notes and bonds.

Bills - Short-term obligations which mature in 1 year or less, and are sold at a discount in lieu of payment period interest.

Notes - Interest bearing obligations which mature between 1 year and 10 years.

Bonds - Interest bearing long-term obligations which generally mature in 10 years or more.

TRUE INTEREST COST or TIC Also known as "Canadian Interest Cost" or "Effective Interest Cost". Under this method of computing the borrower's cost, interest cost is defined as the rate, compounded semiannually, necessary to discount the amounts payable on the respective principal and interest maturity dates to the purchase price received for bonds. TIC computations produce a future value slightly different from the NIC method since TIC considers the time value of money which NIC does not. Compare: NET INTEREST COST.

TRUE INTEREST COST BID A method of evaluating an underwriter's bid which takes into account both the total dollar amount of interest payments and the time value of interest and principal payments.

TRUSTEE A financial institution with trust powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond resolution.

TRUST INDENTURE A contract between the issuer of municipal securities and a trustee, for the benefit of the bondholders. The trustee administers the funds or property specified in the indenture in a fiduciary capacity on behalf of the bondholders. The trust indenture, which is generally a part of the bond resolution, establishes the rights, duties, responsibilities and remedies of the issuer and trustee and determines the exact nature of the security for the bonds. See: BOND RESOLUTION.

UNDERWRITE or UNDERWRITING The process of purchasing all or any part of a new issue of municipal securities from the issuer, and offering said securities for sale to investors. See: SYNDICATE; UNDERWRITER.

UNDERWRITER A dealer which purchases a new issue of municipal securities for resale. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive bidding. See: COMPETITIVE BID; NEGOTIATED SALE; SYNDICATE.

UNDERWRITER'S COUNSEL An attorney or law firm retained to represent the interests of the underwriters in connection with the purchase of a bond issue. The duties of underwriter's counsel may include review of the issuer's bond resolution or ordinance and documentation on behalf of the underwriter; review of the official statement to determine adequacy of disclosure; negotiation of the agreement among underwriters; preparation of the Selling Group Agreement; and preparation of the due diligence opinion. See: DUE DILIGENCE, DUE DILIGENCE OPINION. Compare: BOND COUNSEL.

UNDERWRITER'S DISCOUNT See: SPREAD.

UNDERWRITING AGREEMENT See: AGREEMENT AMONG UNDERWRITERS.

UNDERWRITING SYNDICATE See: SYNDICATE.

UNLIMITED TAX BONDS Bonds secured by a pledge of taxes that are not limited in rate or amount. Compare: GENERAL OBLIGATION BONDS; LIMITED TAX BONDS; REVENUE BONDS; SPECIAL ASSESSMENT BONDS.

UPGRADE The raising of a bond rating by a rating service due to the improved credit quality of the issue or issuer. The term also refers to the replacing of a bond in a municipal bond portfolio with one of a higher quality. See: RATINGS. Compare: DOWNGRADE.

VARIABLE INTEREST RATE See: FLOATING OR VARIABLE INTEREST RATE.

VISIBLE SUPPLY The total dollar volume of bonds to be offered over the next 30 days. The visible supply, which is compiled by and published in *The Bond Buyer,* indicates the near-term activity in the municipal market and may be a determining factor in establishing an offering date.

YIELD CURVE A graph which plots the yield on securities with equivalent quality but different maturities, at a given point in time. The vertical axis represents the interest rate, while the horizontal axis depicts the years to maturity. The term structure of interest rates, as reflected by the yield curve, will vary according to market conditions, resulting in a variety of yield curve configurations.

Normal or Positive Yield Curve - Indicates that short-term securities have a lower interest rate than long-term securities.

Inverted or Negative Yield Curve - Reflects the situation of short-term rates exceeding long-term rates.

Flat Yield Curve - Reflects the situation when short and long-term rates are approximately the same.

Humpback Yield Curve - An unusual shape, indicating that rates are rising in the early years, peaking in the middle years and declining in later years.

YIELD TO CALL The rate of return to the investor if bonds are redeemed prior to their stated maturity date. Municipal Securities Rulemaking Board rules require that the yield to call must be stated if it is lower than the yield to maturity. Compare: CURRENT YIELD; YIELD TO MATURITY.

YIELD TO MATURITY The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually and assuming that interest paid is reinvested at the same rate. Yield to maturity takes into account the time value of the investment. Compare: CURRENT YIELD; YIELD TO CALL

ZERO COUPON BOND A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity. See: ORIGINAL ISSUE DISCOUNT.